

INVESTMENT ADVISORY COUNCIL
THURSDAY, November 13, 2008

MEETING NO. 361

Members present:

Thomas Fiore, representing Robert Genuario*
Michael Freeman
David (Duke) Himmelreich**
James Larkin, Chairman
Stanley (Bud) Morten
William Murray
David Roth
Carol Thomas
Peter Thor

Absent:

Thomas Barnes
Denise L. Nappier, Treasurer
Sharon Palmer

Others present:

Howard G. Rifkin, Deputy Treasurer
Linda Hershman, Assistant Deputy Treasurer/Chief of Staff
Lee Ann Palladino, Acting Chief Investment Officer
Joanne Dombrosky, Principal Investment Officer
Gregory Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
Catherine LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Jason Price, Principal Investment Officer
Linda Tudan, Chief Executive Assistant
Winifred (Winnie) Scalora, Administrative Assistant

Guests:

Tracy Buell, BNY ConvergeEx Group
Kevin Byrne, BNY ConvergeEx Group
Paul Francis, BlackRock, Inc
Ravi Goutam, Barclays Global Investors
Tamara Jackson, Northern Trust Securities, Inc.
Debra Jelilian, BlackRock, Inc.
Grant Johnsey, Northern Trust Securities, Inc.
Harvey Kelly, Leumas Advisors
Steve Kirschner, Russell Investments Group
Cameron Lochhead, Russell Investments Group
Carter Lyons, Barclays Global Investors
Joyce McCabe, BNY ConvergeEx Group
Ross McLellan, State Street Global Markets
Daniel Morgan, State Street Global Markets

* Arrived at 9:07 a.m.

** Arrived at 10:15 a.m.

Paul Sachs, Mercer Sentinel Group ®
Elizabeth Westvold, BlackRock, Inc.

With a quorum present, Chairman James Larkin called the Special Investment Advisory Council (“IAC”) Meeting to order at 9:04 A.M. He also reminded the IAC members that there would be an Asset Allocation Subcommittee Meeting during the lunch-time break.

Presentation of Semi-Finalists for the Transition Management Panel Search

Paul Sachs, Principal of Mercer Sentinel Group®, presented an overview of transition management. He stated that a transition is a large asset transfer with the objective to control risk and reduce costs. Mr. Sachs then explained in detail the potential costs associated with a transition and the attributes of a good transition manager. Finally, he discussed the CRPTF’s transition manager selection process.

IAC members posed several questions about the transition process, execution costs, risk management and the value of having a transition manager. Mr. Sachs answered these questions to the satisfaction of the IAC members. Ms. Palladino explained the current process followed for transitioning from one money manager to another. She added that the reason for using a transition manager was best execution, risk management and fiduciary oversight. Mr. Sachs discussed the specialized trading techniques of transition managers.

Mr. Sachs provided introductory remarks on the following firms that provided presentations for the Transition Management Panel Search: Barclays Global Investors, N.A. (“BGI”), BlackRock, Inc. (“BlackRock”), BNY ConvergeEx Group (“BNY”), Northern Trust Securities, Inc. (“Northern”), Russell Investments Group (“Russell”) and State Street Global Markets, LLC (“State Street”). IAC members posed questions about Connecticut-based transition management firms, conflict disclosure and how transition managers have been affected by the financial environment. Mr. Sachs and Ms. Palladino responded to these questions to the satisfaction of the IAC members. Ms. Palladino also stated that each of the transition managers had various capabilities that would support the CRPTF’s diverse portfolio.

Presentation by Barclays Global Investors, N.A.

BGI made a presentation to the IAC on its firm’s transition management program. BGI was represented by Carter Lyons, Director of Americas Institutional Business, and Ravi Goutam, Managing Director. Mr. Lyons provided an overview of BGI’s global organization and noted that BGI managed \$2 billion in assets and worked with nine of the ten largest state plans.

Mr. Goutam highlighted the major attributes of BGI and cited that it established a trusted and transparent relationship with its clients, delivered lower costs and greater savings, developed risk mitigating investment strategies and assumed clients’ operational risk. He commented on BGI’s revenue transparency and noted that transparency was necessary for evaluation of a transition

manager and for determining the true cost of a transition. Mr. Goutam added that BGI had a high global transition volume with experience across all asset classes. He then spoke about BGI's track record, experience in the execution of large transactions and extensive experience with transition manager pools. Mr. Goutam noted the benefits of BGI's size and scale which included reduced transaction costs, a low fee structure, reduced spread and ability to access liquidity. Finally, he stated that BGI manages the trade off between cost and risk, and he provided a sample transition timeline with an explanation of how BGI assessed risk.

Mr. Goutam responded to an IAC member's question about how the current volatile market would affect transition costs noting that increased volatility and lower liquidity increased execution costs.

Presentation by BlackRock, Inc.

BlackRock made a presentation to the IAC on its firm's transition management program. BlackRock was represented by Elizabeth Westvold, Managing Director; Paul Francis, Product Manager; and Debra Jelilian, Portfolio Manager. Ms. Westvold provided an overview of BlackRock and noted it was a full-service world leader in global transition. She then highlighted BlackRock's team, its experience, execution platform, ability to leverage technology and use its risk management tools. Ms. Westvold then discussed BlackRock's approach and noted that it had the fiduciary culture of an asset manager, the risk technologies of a systems provider, the global capital market's expertise of an investment bank and the problem solving capabilities of a consultant. She then discussed what differentiated BlackRock from other firms, its client relationships and the BlackRock organizational structure.

Mr. Francis provided an overview of BlackRock, the financial markets and transition management. He stated that BlackRock was a full-service fiduciary transition manager, and BlackRock's transition management team provided consistent performance.

Ms. Jelilian discussed the transition management process and noted the importance of controlling operational risks through its transparent process to achieve the best execution transactions. She then provided an explanation of the preparation involved, implementation and completion of a transition. Finally, Ms. Jelilian commented on BlackRock's historical cost estimate performance and stated that it delivered consistently within one standard deviation.

Ms. Westvold summarized by highlighting BlackRock's key features, its global fiduciary role; its hybrid execution strategies; customized reporting; transparency of all sources of revenue generated by its firm and/or affiliates, and that the firm was willing to link compensation to the transition performance.

An IAC member posed questions about how much market costs would increase with respect to current market volatility, what BlackRock's share of market in transition management was and its trend in that share. The BlackRock team satisfactorily responded to these questions.

Roll Call of Reactions for the Semi-Finalists, Barclays Global Investors, N.A., and BlackRock, Inc., for the Transition Management Panel Search

Chairman Larkin requested the IAC members to provide feedback on BGI and BlackRock. Mr. Himmelreich abstained as he was not present for the presentations. Messrs. Fiore, Murray, Morten, Freeman, Thor, Roth, Ms. Thomas & Chairman Larkin were all in favor of both.

Presentation by BNY ConvergeX Group

BNY made a presentation to the IAC on its firm's transition management program. BNY was represented by Joyce McCabe, Vice President; Tracy Buell, Senior Vice President; and Kevin Byrne, Managing Director. Ms. McCabe provided an overview of BNY and commented on its history, organization and philosophy. She noted that BNY was a privately held agency-only brokerage firm affiliated with Bank of New York Mellon Corporation; it did not manage any assets in house and it was unconflicted and independently owned with senior management owning 30% of the company. She stated that BNY's three primary lines of business were liquidity and execution management, investment technologies and intermediary and clearing services.

Mr. Byrne stated that over the last two years BNY transitioned over \$500 billion in assets. He also commented on BNY's staff and experience and noted that it had a global, conflict-free agency trading platform in over 90 markets. Mr. Byrne then commented on BNY's access to liquidity, high quality execution, investment in technology, fiduciary oversight and high level of client service.

Ms. Buell commented on the process BNY follows to accomplish transitions along with its monitoring and reporting processes. She then commented on the steps followed for completion of a successful transition including. Mr. Byrne added that this was a disciplined process and the infrastructure and technology BNY had in place allowed it to deliver unique solutions to its broad array of clients.

In response to a question from an IAC member, Mr. Byrne stated that the current market environment was opportunistic for BNY because it didn't own any mortgage-backed securities and does not make markets. He said that BNY had access to varied and diverse pools of liquidity which allowed its transition clients to reduce the overall cost of trading. Finally, Mr. Byrne stated that BNY is able to deliver unique solutions to clients because it is not a capital broker, index fund or asset manager.

IAC members posed questions about BNY being an agency-only trading firm, its fiduciary status, crossing transactions, reporting to clients, impact of market volatility on transition costs, and its market share of the transition management business. The BNY team responded to these questions to the satisfaction of the IAC members.

Presentation by Northern Trust Securities, Inc.

Northern made a presentation to the IAC on its firm's transition management program. Northern was represented by Tamara Jackson, Senior Vice President, and Grant Johnsey, Head of Transition

Management. Ms. Jackson provided an overview of Northern and stated that it had been in operation for about 120 years and established itself as a global leader in investor trust and wealth management services. She continued that Northern managed about \$3.5 trillion in custody assets and about \$650 billion in investment assets. Ms. Jackson said that Northern followed a high-disciplined and risk-controlled process across all of its strategies and it ranked as one of the healthiest organizations in the U.S. Finally, she commented on Northern's diverse staff and its commitment to corporate citizenship.

Mr. Johnsey discussed explicit and implicit costs noting that the implicit costs represented the largest percentage of total costs. He then explained that the opportunity costs came from market risk and security-specific risk. Mr. Johnsey stated that Northern's mission was to provide customization, multi-disciplinary expertise and embrace fiduciary responsibilities. He highlighted Northern's track record and its dedicated team. In summary, Mr. Johnsey stated that the cornerstone of Northern was its integrity, expertise and service.

IAC members posed questions about Northern's opportunity costs as they related to recent market events, its position in transition management versus the competition and global and index fund flow trends. The Northern team responded to these questions to the satisfaction of the IAC members.

Roll Call of Reactions for the Semi-Finalists, BNY ConvergeEx Group and Northern Trust Securities, Inc., for the Transition Management Panel Search

Chairman Larkin requested the IAC members to provide feedback on BNY and Northern. Messrs. Freeman, Morten, Murray, Himmelreich, Fiore, Thor, Roth, Ms. Thomas and Chairman Larkin were all in favor of both BNY and Northern.

Presentation by Russell Investments Group

Russell made a presentation to the IAC on its firm's transition management program. Russell was represented by Cameron Lochhead, Regional Director, and Steve Kirschner, Head of Transition Management. Mr. Lochhead began his remarks by stating that Russell was a stable firm with an excellent team that affords a leadership position in the transition management field. He then made comments on Russell's transition management strategy, implementation services, multi-manager funds, alternative investments and indexes. Mr. Lochhead stated that Russell had very little turnover of staff, which has enabled it to weather the storm during the current financial crisis.

Mr. Kirschner commented on Russell's integrated suite of services including its unique strategy, implementation and project management, and explained how the CRPTF would utilize its services. He added that Russell's technology platform was built to prioritize execution specifically to the needs of transition management. Mr. Kirschner commented that Russell had a capability in highly complex and risky transition events including asset allocation shifts and multiple manager restructures with a high level of operational risk.

An IAC member posed questions about the major segments of the transition management market,

Russell's competitive advantages, and why its volume was higher for global transition events. Mr. Kirschner answered these questions satisfactorily.

Roll Call of Reactions for the Semi-Finalist Russell Investments Group for the Transition Management Panel Search

Chairman Larkin requested the IAC members to provide feedback on Russell. Ms. Thomas, Messrs. Roth, Thor, Fiore, Himmelreich, Murray, Morten, Freeman and Chairman Larkin were all in favor of Russell.

Presentation by State Street Global Markets, LLC

State Street made a presentation to the IAC on its firm's transition management program. State Street was represented by Daniel Morgan, Managing Director, and Ross McLellan, Senior Transition Management Director. Mr. Morgan provided an overview of State Street and noted that it had a proven track record of serving the needs of owners of institutional assets, investment managers and financial intermediaries. He then commented on State Street's transition management volume, global market share and electronic trading platforms.

Mr. McLellan commented on State Street's experience with state pension plans, its capability to generate internal liquidity, its conflict free environment and global trading platform. He also provided information on State Street's risk management and noted that all internal cross trades for transition clients were evaluated by an independent group. He then commented on State Street's team that would be dedicated to the CRPTF.

Mr. McLellan commented on a question posed by an IAC member that State Street remained profitable despite the current financial crisis, it was rated AA and none of its clients realized losses on money market funds or in securities lending pools.

Roll Call of Reactions for the Semi-Finalist State Street Global Markets, LLC for the Transition Management Panel Search

Chairman Larkin requested the IAC members to provide feedback on State Street. An IAC member asked whether it would be an advantage to choose State Street because they were our custodian. Ms. Palladino responded that it was not an advantage as transition management business is conducted in a confidential fiduciary environment so that information leakage will not move the market. Ms. Thomas, Messrs. Roth, Thor, Freeman, Morten, Murray, Himmelreich, Fiore and Chairman Larkin were all in favor of State Street.

Motion to Waive the 45-day Comment Period for the Semi-Finalists for the Transition Management Panel Search

Chairman Larkin asked for a motion to waive the 45-day comment period for BGI, BlackRock, BNY, Northern, Russell and State Street. **A motion was made by Peter Thor, seconded by Carol**

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Thomas to waive the 45-day comment period for BGI, BlackRock, BNY, Northern, Russell and State Street. The motion was passed unanimously.

Other Business

Chairman Larkin invited IAC members to submit agenda items for the December 10, 2008 meeting. He also announced that he would not be present for the December 10, 2008 IAC meeting and David Roth would preside over the meeting.

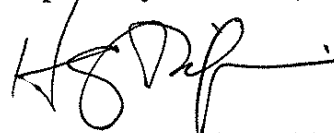
Comments by Chairman Larkin

James T. Larkin, IAC Chairman, presented and provided prepared remarks to the IAC members on the economic environment and statutory duties, responsibilities and powers of the IAC. Attached to these minutes is the full statement as read and distributed by Chairman Larkin.

There being no further business, the meeting was adjourned at 1:30 p.m.

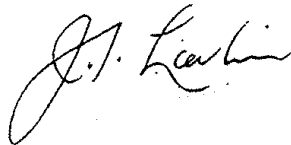
An audio tape of this meeting was recorded.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'H. G. Rifkin', with a horizontal line extending to the right.

**HOWARD G. RIFKIN, DEPUTY TREASURER
for
DENISE L. NAPPIER, SECRETARY**

Reviewed by

A handwritten signature in black ink, appearing to read 'J. T. Larkin', with a horizontal line extending to the right.

**JAMES T. LARKIN
CHAIRMAN**

IAC MEETING NOVEMBER 13, 2008
CHAIRMAN'S COMMENTS
THE ECONOMIC ENVIRONMENT AND
STATUTORY DUTIES, RESPONSIBILITIES AND POWERS
OF THE INVESTMENT ADVISORY COUNCIL

In a letter addressed to each of the Chairs of the various statutory boards, commissions and councils by Governor Rell on December 26, 2007, the Governor cited the vital importance of ensuring that members of these public agencies be made “aware of their statutory duties, responsibilities and powers.” In her letter specifically addressed to me as your Chair, she has asked me, in ensuring that awareness, to also distribute to each of you “a copy of all statutory provisions” relating “to the duties, responsibilities and Powers of the IAC.” While I did not consider this a matter of urgency at that time, the world and circumstances have now changed.

Today we find ourselves in a dramatically deteriorated worldwide economy characterized by highly volatile financial markets and rapidly changing investment opportunities and risks in what Warren Buffet has described – and hopefully overstated – as an “economic Pearl Harbor” that is going to be of long duration. Under these circumstances the imperative of where to best invest one’s funds now and rebalance the existing portfolio within the confines of the current Investment Policy Statement (“IPS”) is of critical importance. Any such decisions in this regard must be informed by a current and readily updateable investment strategy statement the outlook of which must guide the approval, review and advisory roles of IAC and be of assistance to the Office of the Treasurer (“OTT”) and its consultants.

Given this scenario, I now believe it is timely that the members of the IAC, the staff of the OTT and the public be reminded of, or have increased awareness of, the duties, responsibilities and powers of

the IAC, especially its approval, advisory and review roles in assisting the State Treasurer which have taken on new urgency. Today I will be distributing to you copies of CT statutes pertaining to the IAC as contained in (1) Chapter 32; (2) Chapter 14 of the Freedom of Information Act; (3) Section 4-38f of Chapter 28 relative to public Agency Organization and Section 9-612 relating to Political Activities of members; and also a copy of the Governor's letter.

Let me make some comments and elaborations before distributing these documents.

What is the IAC?

It is a statutory state agency created by the Connecticut General Assembly empowered with statutory duties, responsibilities and powers related to the Treasurer's investment of pension funds. It has 12 members comprised of five public members, four of whom are appointed by the legislative leadership and one by the Governor; five union members appointed by the Governor, three of whom are nominated by the teachers unions and two nominated by the state employees unions; two ex-officio members, the Secretary of the Office of Policy and Management and the State Treasurer who is also secretary of the council. The Chair is appointed by the Governor.

The IAC is an independent "public agency" as defined in section 1-200 of chapter 14 of the statutes. The IAC is not a part of, not an extension of, not an adjunct to the OTT, nor does it in any way report to the OTT. It has its own statutory duties and responsibilities and is associated with the OTT for "administrative purposes only" as provided in Chapter 32 of the CT General Assembly Statutes, sec. 3-13b (d).

By statute (ch.28, sec. 4.38f) the IAC, as a public agency, operates independently "without the approval or control" of the OTT. Let me quote the pertinent section:

(a) An agency assigned to a department for administrative purposes only shall:

- (1) Exercise any quasi-judicial, rule-making or regulatory authority, licensing and policy-making functions which it may have independent of such department and without approval or control of the department;
- (2) prepare its budget, if any, and submit its budgetary requests through the department; and
- (3) hire its own personnel or enter into contracts, if authorized by law, or if the general assembly provides or authorizes the expenditure of funds therefore.

(b) The department to which an agency is assigned for administrative purposes only shall:

- (1) Provide record keeping, reporting, and related administrative and clerical functions for the agency to the extent deemed necessary by the department head;
- (2) Disseminate for the agency any required notices, rules or orders adopted, amended or repealed by the agency;
- (3) Provide staff for the agency subject to the provisions of subdivision (3) of the subsections (a) of this section; and
- (4) Include in the departmental budget the agency's budgetary request, if any, as separate part of said budget and exactly as prepared and submitted to the department by the agency.

The IAC, as an independent agency, may establish its own policies, rules and procedures for the governance of its operations and proceedings providing they are not in conflict with the General Statutes. And under such circumstances they do have standing in the context and conduct of the

IAC.

The IAC has four distinct roles: the power of approval under limited circumstances, the responsibility for review and advice and the duty of notification.

APPROVAL

The IAC approves the following:

Under Section 3-13b (c) (1) of Chapter 32, the IPS and any modifications, amendments or changes including, but not limited to, asset allocation and asset ranges, new asset classes, new investment strategies and any deviations from the policy; Approval of matters related to the IPS is by majority vote of the 10 public and union members.

Under Section 3-132 (a), the hiring and compensation range for the Chief Investment Officer appointed by and reporting to the Treasurer;

Under Section 3-13d (e), when real estate and private equity investments are made during any “lame duck” period of the State Treasurer’s term in office. This is the only instance in which members of the IAC have a statutory fiduciary responsibility. (My opinion is that that section should be amended by the legislature to include alternative investments.)

REVIEW AND ADVICE

Sec 3-13b (c) (2) tells us that “All trust fund investments by the State Treasurer shall be reviewed by said IAC.” Thereafter the IAC renders its advice to the Treasurer.

Section 3-13i states clearly that “no contract for services related to the investment of such funds shall be awarded to a provider of such services until the Treasurer’s recommendation of a provider is reviewed by the IAC. The Treasurer shall provide notice of such recommendation at a meeting of the IAC”. Thereafter the IAC renders its advice to the Treasurer.

Article VII d. of the IAC approved IPS states that “Before the retention of any money manager, investment manager or professional consultant, the Treasurer will present a recommendation to the IAC for consideration.”

In accordance with 3-3li, the IAC has up to 45 days to review or comment on “the Treasurer’s recommendation concerning the selection of a provider” of services related to the investment of pension funds. This provision may be, and usually is, waived by the IAC at the time of initial review.

The statute and/or the IPS also require that the IAC review, among several other matters:

- Periodic written reports from the State Treasurer, operational audits, financial audits, actuarial valuations of the pension funds, as well as other materials referred to under “Information used by the IAC” in the Member Handbook.
- Any use of derivatives that varies from the IPS.

Neither the IAC, nor any sub-committee thereof, is required by statute to do due diligence or participate in the Treasurer’s due diligence interviews with money managers. That is a conflict of interest. The IAC review is after the Treasurer’s due diligence and recommendation. This is reinforced in the advice role in the Members Handbook.

The IAC does not delegate to a sub-committee decisions that would limit the number of money managers appearing before or presenting to the full IAC or any decisions that are properly one of the major roles and responsibilities of the full IAC.

The paramount Review Role and responsibility of the IAC is not a form of management, control or fiduciary duty, but a broad authority exercised less directly by way of examination or observation. It is studying or examining any recommendation of a money manager, consultant, etc. recommended by the Treasurer for consideration of the IAC prior to the IAC formulating an opinion or advice relevant to the capabilities of the service provider the Treasurer is evaluating.

The Review role, therefore, is a form of oversight in the sense of watchful care. And that is, in my opinion, the expectation of and in the best interests of our main constituencies – the pension beneficiaries and the taxpayers. Equally, if not more importantly, it is in the best interest of and provides protection for the Treasurer.

NOTIFICATION

Under Section 3-13b (c) (2), the IAC has a notification duty in the event that any unauthorized, illegal, irregular, or unsafe handling or expenditure of the trust funds comes to its attention. In such cases, the IAC will notify the Auditors of Public Accounts and comptroller of its concerns. Furthermore, if the State Treasurer makes investments that contravene the best interests of the State, the IAC has the right to notify the Governor to remedy the situation. Any notification to the Governor must be in writing and supported by a majority vote of the IAC. “The Governor may direct the Treasurer to change any investments made by the Treasurer when in the judgment of said council such action is for the best interest of the state.”

Before my final comments, let me quickly enumerate the responsibilities of your Chairperson.

He or she is responsible for:

1. Meeting with State Treasurer on a regular basis and upon request from the State Treasurer
2. Setting the schedule and agendas for the meetings
3. Establishing committees and their charters
4. Appointing members and chairpersons of committees, after requesting volunteers
5. Evaluating the effectiveness of committees and making changes, as needed
6. Conducting the IAC meetings or appointing another IAC member to conduct them in his or her absence
7. Reviewing the minutes of IAC meetings prior to their distribution
8. Communicating with the media and others about IAC positions or actions
9. Calling special or emergency meetings, when he deems necessary or when requested by a majority of the IAC members (per statute)
10. Enforcing the governing policies of the IAC
11. Scheduling and attending new member orientations

To whom does the IAC report and to whom is it responsible?

Our distinguished newest member recently asked to whom or to what entity the IAC reports. I believe there are two different answers as to whom the IAC reports and to whom it is responsible.

In Section 3.13b, part c.2 the statutes indicate that the IAC, at the close of each fiscal year, shall “make a complete examination of the security investments of the state... and the value of such investments in the custody of the Treasurer and report thereon to the Governor, the General

Assembly and beneficiaries of the trust funds administered, held or invested by the Treasurer.”

The IAC prepares and submits such a report each year. It is signed by the Chair on behalf of the IAC and is usually included in the Treasurer’s Annual Report with the approval of both the IAC and the Treasurer. So in the strict sense of reporting, the IAC reports to the Governor, the General Assembly and the pension beneficiaries of the trust funds.

But strict lines of reports in compliance with the statutes notwithstanding, I prefer to ask to whom the IAC is responsible – and this is not in the statutes. As a member of this council going on five years, I have clearly considered that our first responsibility is to the pension fund beneficiaries and the other taxpayers giving them the comfort that their funds are being prudently invested on their behalf and the assurance that every effort is being made to obtain rewarding high returns without undue risk and volatility.

My colleagues, the statutes are not perfect and some cases a bit ambiguous. But one must understand that legislation is almost always characterized by compromise. Clearly some statutes need reworking to avoid misunderstandings.

And there have been some misunderstandings with regard to the relationship of the IAC with the OTT, mostly because the IAC’s role has not been clearly explained or understood by all parties, including the public. I hope it is now clear that the IAC is a statutory independent public agency. It has the ability to draft its own budgets, set its own rules of governance and independently exercise the authority granted to it under the statutes. The agency could, if it so desired, submit legislation and testify before committees of cognizance during legislative hearings. The agency can also schedule meetings when it deems appropriate, at least four times a year, where it deems convenient provided proper notice is filed with the Secretary of State. To further avoid any

misunderstandings, the IAC should have its own letterhead and business cards with the state seal, not that of the OTT. Counsel advises that this is quite proper. I began this initiative with the council report to the Governor last year.

Your chairman has nothing but the highest regard and respect for the outstanding staff of the OTT. Many times I have said to the Treasurer that these people are so talented they could double their salaries in the private sector. But why do they stay here? Because they are dedicated and respect their Treasurer and Deputy Treasurer.

The members of the IAC are also dedicated both to their statutory responsibilities and to working in a cooperative manner with the OTT. The IAC is comprised of volunteers who give generously of their time and expertise without compensation or complaint. They know that they have a critically important role in safeguarding the best interests of their constituencies. They take it very seriously.

Given the problems and alleged misdeeds experienced a year ago in New York, New Jersey and South Carolina with pension funds and the short-term investment funds in Maine, Montana, Florida and again in Orange County in California, the role of the IAC to give watchful care takes on added urgency and importance in ensuring prudent and rewarding investment while avoiding unnecessary risk as it has done during the tenure of this Treasurer. The IAC members have been very influential in that regard and they will continue to do so, especially as the OTT crafts its strategy for investing in a narrow gauge of alternative investments. As we contemplate hedge funds I am reminded of what my counterpart in Texas, Fred Rowe, recently said: "It's like planning a vacation to an exotic land, and finding out that there is an outbreak of bubonic plague." And with regard to derivatives, as long as five years ago, Warren Buffet described

them prophetically as “weapons of mass destruction.” Let us proceed carefully.

Here in Connecticut we have an IAC that is a model for other states, just as is the OTT. The administrative support that the IAC receives from the OTT can only be considered outstanding. And on behalf of the IAC, I thank all of you for that.

Chairman Larkin then distributed copies of the above-mentioned letter from Governor Rell and “Statutes Pertaining To Investment Advisory Council” to all present.